Commissioned Officers Association
of the U.S. Public Health Service

February 20, 2015

The Hon. John McCain
Chairman

The Hon. Lindsey Graham
Chair, Personnel Subcommittee

The Hon. Jack Reed
Ranking Member

The Hon. Kirsten Gillibrand
Ranking Member, Personnel
Subcommittee

Dear Armed Services Committee Chairs and Ranking Members:

The Commissioned Officers Association of the United States Public Health Service (COA) represents active duty and retired officers of the United States Public Health Service (PHS), a unique uniformed service that fights disease in the United States and throughout the world. PHS officers, for example, deployed by the thousands after Hurricanes Katrina and Rita and Tropical Storm Sandy. Almost 900 PHS officers served in Iraq and Afghanistan. Hundreds deployed to the US-Mexico border to provide medical care and treatment to the unaccompanied minors who streamed into our country. And 200 PHS officers have deployed to Liberia, where they continue to staff a 25-bed hospital and treat Liberian healthcare workers who have contracted Ebola.

The PHS commissioned corps is different from the military services in that it is comprised entirely of commissioned officers; there are no NCOs or other enlisted personnel in the commissioned corps. Some 75% of officers who are commissioned into the corps remain in service for at least 20 years, unlike the military services, in which only 49% do so. This statistically-different career rate most assuredly affects our analysis of the Commission's proposals, though we believe that our conclusions about individual proposals are also applicable to the other uniformed services. We applaud the work that the Commission devoted to its study, and we very much appreciate that the Commission included all seven Uniformed Services in its analysis and recommendations.

We at COA appreciate your invitation to submit our thoughts about the recommendations of the Military Compensation and Retirement Modernization Commission (MCRMC). There are certain recommendations that we can support wholeheartedly, and there are some recommendations that would attract our support only if they were modified significantly. Further, we believe that there are areas of the report where the Commission's analyses and conclusions are suspect. What follows are our views on the specific recommendations of the Commission.

Recommendation #1. Retirement.

We understand that this proposal would only affect those who join one of the uniformed services after the date of enactment of these changes in the retirement system; therefore there is nothing inherently unfair about making any pension changes the Congress deems acceptable and necessary. We would caution, however, that there are two aspects to this proposal that we do not believe have been adequately explored by the Commission and which we would urge the Congress to consider.

First, this proposal shifts retiree financial risk from the United States government (USG) to the retiring servicemember, in that a significant portion of the new retirement benefit would be based on stock market performance. As we have seen over the past half a dozen years, such performance can neither be guaranteed nor anticipated. That may be a consequence the Congress is willing to accept in the interest of paying for a benefit for those who do not serve a full twenty-year career, but it may have enormous consequences for those servicemembers who do not choose to invest the maximum into their 401(k) accounts and for all prospective retirees if the stock market does not perform as the Commission anticipates it will. It also raises the question as to what the mind-state of an SM might be if he or she were on a deployment and they suddenly learned that because of a precipitous loss in the stock market--something we have seen several times in recent years—their retirement benefit and their financial security had taken a disastrous hit. It is a certainty that adverse personal financial events affect the morale and mental well-being of everyone—not just servicemembers—but adding uncertainty to an SM's retirement benefit might well be one of those second-order effects that the Commission did not consider.

Second, this proposal reminds us most eerily of the 1986 "REDUX" retirement system. The difference is that while REDUX provides a 40% pension benefit at 20 years of service and a 75% benefit at thirty years, the Commission's proposal caps the pension at 60% after 30 years. Though REDUX did not apply to those already serving at the time of enactment—just like the Commission's proposal—by 1999 the Joint Chiefs of Staff determined that it was having a serious negative effect on both recruitment and retention. In a letter to the Chairman (John Warner) and the Ranking Member (Carl Levin) of the Armed Services Committee in 1999, the Director of the Congressional Budget Office wrote that, "The Joint Chiefs of Staff have made repeal of REDUX their number one readiness priority. To the extent that repeal has become a symbol of the nation's commitment to its military personnel, failure to repeal REDUX could have a strong negative effect on the morale and possibly the retention of military personnel, at least in the short run."

The JCS went before the Congress and raised their concerns about REDUX, and Congress heard them. REDUX was made optional in 2000. This historical lesson, it seems to us, is applicable today, and we urge the Congress to consider the full implications of the Commission's retirement pay proposal. It appears that the Commission is going out of its way to discourage servicemembers from remaining on active duty after 20 years, both because of the lack of enhancements to retired pay that even REDUX provides, and the lack of a government match to the 401(k) after 20 years. We can see the Commission's proposal leading ultimately to problems with recruitment and retention, though there is no way to measure such at present. We suggest that the Congress could learn from the REDUX example and provide an enhanced multiplier (i.e., greater than 0.02) for those who serve between 21 and 30 years as well as providing a government match to the 401(k) after 20 YOS.

We are, in fact, surprised and disappointed that the Commission did not study this likely effect of their retirement proposal. Some 75% of PHS officers who enter service stay a full 20 years, with a slightly smaller percentage staying to 30 YOS. This is substantially higher than the rate for commissioned officers in the military services (i.e., 49%; Report, p. 23) and reflects the nature of the commissioned corps of the PHS. We therefore suggest that the Congress ask the Commission—or some other group--to provide an analysis of the retention impact on officers who have served a creditable 20 years. What are the services' requirements for officers serving in the 21-30 YOS timeframe, and how would the Commission's proposals affect retention of them? The American taxpayer, after all, has made a considerable investment in getting these officers to the 21-year mark, and it is generally thought that years 21-30 are when the services reap the fullest benefits of this investment.

Finally, we believe that the Commission has substantial flaws in the way it demonstrates that the typical SM would realize greater financial benefit from the proposed retirement plan than he or she would under the current defined benefit plan. We question, as does the *Army Times* newspaper of 16 February, the assumptions behind the "discount rate" that the Commission uses when it evaluates the future value of today's pension benefit. For example, the Commission used a discount rate of 12.7% when it calculated the future value of the current pension of a retiring E-7. For the retiring O-5, which would be the grade at which many PHS officers would be affected, the Commission used a discount rate of 6.4%. First of all, having two different discount rates is not actuarially defensible. It is explained by the Commission as resulting from surveys of servicemembers. According to *Army Times* (16 February, p. 10), "the figures reflect the perceived value of the benefit, rather than an objective value." Such a manner of calculating actual value is totally indefensible and is the equivalent of resorting to smoke and mirrors to reach the outcome you are seeking.

Using a discount rate is proper, as it takes into consideration future inflation and reduction in value in current dollars. There are, however, two things wrong with the Commission's approach: (1) military pensions are indexed for inflation, and (2) the Commission used an excessively-large discount rate. According to the private sector actuaries consulted by *Army Times*, the proper discount rate should have been around 2-3 percent because the US government is the pension guarantor. We believe that that Commission's methodology greatly undervalues the current pension, no matter the grade at which an SM retires, while exhibiting unqualified exuberance for a stock market-based retirement benefit.

As stated above, the Commission's figures were arrived at by using what was described as a "perceived value of the benefit, rather than an objective value." This "perceived value" was derived by surveying SMs as to what they think the current and proposed plans are worth. There is an inherent and fatal flaw in this methodology over and above the fact that no trained actuary would use such, in that the Commission itself, in its third recommendation on financial literacy, recognizes and emphasizes that current SMs really do not understand financial choices well enough to make an informed and responsible decision as to what is best for them. So how, we ask, could the Commission rely on current servicemember financial perceptions as the basis for their pension comparisons?

With respect to the Commission's recommendation for a US government contribution to a 401(k) plan, it should be noted that SMs have been able to contribute to the USG Thrift Savings Plan without a government match since the year 2000. Under the Commission's proposal, the USG contribution to the 401(k) would only be 1% through 2 YOS, rising to a possible 5% only if the SM puts that amount into the 401(k). The USG contribution would end at 20 YOS, meaning that for career SMs, the USG contribution is zero for years 21-30. We suggest that if the Congress adopts the 401(k) proposal, it consider mandating a USG matching contribution for years 21-30 of the servicemember's career, rather than only for years 3-20.

We believe that the Committee also consider whether the Commission's proposal would have a deleterious effect on transition of SMs to the National Guard or federal Reserve. With the current system, an SM who serves 8 or 10 years might well decide that they want to join one of the reserve components and serve the balance of a 20-year career in order to realize some financial benefit from their time in uniform. If they can walk away with a 401(k) nest egg, they might decide that joining one of the reserve components is not worth it financially. We do not believe that the Commission has adequately accounted for this potentially-deleterious effect on Reserve Component (RC) recruitment.

Overall, we believe that the Commission's Recommendation #1 represents a defensible change in the retirement plan for members of the uniformed services, but we can see the potential for significant second and third order effects that the Commission did not discuss. Recruitment and retention, for example, could pose definite challenges for both the Active Component and the Reserve. We also believe its provisions might well encourage a mass exodus from the services after 20 YOS, thus depriving the uniformed services of senior leadership, and we do not believe that the Commission has addressed this "rank-and-experience drain." The REDUX experience taught us that money matters and that pension benefit percentages matter, and it would be well if we paid attention to lessons learned from that not-so-long-ago historical lesson.

Recommendation #2: Survivor Benefit Plans (SBP)

We at COA largely support this recommendation. We believe that the services should offer the option of a non-subsidized SBP that does not result in an offset for the VA's Dependency Indemnity Compensation.

Recommendation #3: Financial Literacy

We concur with the Commission that SMs need more financial literacy, regardless of whether or not they will be compelled to make the types of financial decisions that would be required under the Commission's proposals. We question the value of group financial literacy sessions, which is what we have been told by Commission staff is the likeliest manner in which such education would be effected. The preferred method of having such discussions is one-on-one.

Recommendation #4: Promote Efficiency within the Reserve Components RC)

We support this recommendation for decreasing the number of types of orders used for RC members. We do not know whether the Commission's proposal contains the correct number of types of orders for RC personnel, but we believe (as an organization that has two current or former reservists in its hierarchy) that the current system needs simplification.

Recommendation #5: Joint Readiness Command

We support the idea of a Joint Readiness Command, to be led by a 4-star officer. We question why the Commission omitted any discussion of how the Surgeon General of the United States or the US Public Health Service would fit into the work of this command. The PHS provides a significant asset for any USG response to medical needs, as has been demonstrated by the deployment of PHS officers to Liberia as the only USG medical personnel who have actually treated Ebola patients in West Africa.

Recommendation #6: Healthcare

We at COA support this proposed change in the current healthcare delivery system for servicemembers. We believe, as does the Commission, that the current TRICARE system is largely unworkable, that it is not responsive to the needs of SMs and their families, and that its reimbursement rates to healthcare providers is such that many private sector providers will not take TRICARE patients. We believe that the Commission's recommendation to have active duty SMs receive their healthcare at Military Treatment Facilities (MTFs) is sound, with the caveat that approximately 40% of PHS officers serve in such remote duty locations that they currently access their healthcare through TRICARE Prime Remote.

The Commission's report suggests (p. 113) that members of the Public Health Service and their dependents would receive healthcare benefits through the proposed TRICARE Choice, though it was not clear to us whether this really was meant to include PHS officers on active duty. In the 11 February hearing before the House Armed Services Committee, former JCS vice Chairman ADM Edmund Giambastiani, USN (Ret.) responded to a Member's question about remote care by stating that active duty SMs who serve in locations where there is no MTF would be able to access their care through the Commission's proposed TRICARE Choice plan. If this be the case, then it would resolve our concerns about PHS officers who serve in locations that are fifty miles or more from MTFs.

We especially like the Commission's proposal to remove active duty SM dependents from the MTFs and provide them access to a system that would parallel the Federal Employee Health Benefits plan currently used by civilian federal employees. Because we have found that TRICARE as currently configured and managed does not pay for dependent care that is consistent with private sector care, we believe this would be a significant improvement in benefits for the dependents of active duty SMs. We point out that TRICARE does not even currently pay for certain procedures and tests that are accessible to SM dependents through MTFs, though they are standard and not "exotic" treatments or tests. The Commission proposal would eliminate this discrepancy.

Recommendation #7. Servicemembers with Special Needs Dependents

COA strongly supports this recommendation. We thank the Commission for taking a hard look at the piecemeal coverage currently available to uniformed services dependents with special medical and educational needs. We also thank the members of this Committee, especially Sen. Kirsten Gillibrand, for their leadership in this area.

For several years, the collective face of this issue has been children with various disorders "on the autism spectrum," as well as children with developmental disabilities other than autism. Thanks largely to continued interest and firm direction from the SASC, TRICARE has increased coverage of applied behavior analysis (ABA) for autistic children. But more must be done. ABA should be available to children with other developmental disabilities. Other pressing needs include access to respite care (the Commission cites waiting lists up to four years), transportation, and supplies and durable medical equipment. Above all, medical care provided to dependents of uniformed services personnel must keep current with the evidence-based recommendations of civilian medical experts and institutions, e.g., the American Academy of Pediatrics.

TRICARE's Extended Care Health Option (ECHO) was originally set up to replace state Medicaid waiver programs, for which uniformed services' dependents were not eligible. But the Commission found that the ECHO program is "not robust enough" to do that job and fulfill that need. It recommends aligning services under ECHO to those of state waiver programs.

COA wants to see this recommendation adopted both for its own sake and as part of a broader effort to improve the care available to children in uniformed services families. In a report issued last summer, the Defense Department acknowledged significant gaps in coverage and said it lacked sufficient data to evaluate pediatric care in several areas. The report concluded that access to care for pediatric patients was "adequate," but advocates argued that "adequate" is not good enough. COA agrees.

Recommendation #8: Improve Collaboration between DoD and the VA

We support this recommendation for greater coordination between the Defense Department and the Department of Veterans Affairs, especially with regard to the ability to exchange electronic records. With regard to merging the two drug formularies, we support this proposal with the caveat that any merged formulary should mirror that of DoD, and not the much-smaller VA formulary.

Recommendation #9: Combine Military Exchanges and Commissaries into One Entity

We do not support this recommendation, as the two entities operate on different business models, and we believe that the Defense Department would use such a merger to decrease the benefit of the commissary. It is clear from press reports that the Defense Department wants to cut the commissary benefit by reducing the subsidy and decreasing commissary staffing and hours of operation. Exchanges operate as discount department stores, with profits going into military Morale, Welfare, and Recreation funds. Commissaries operate as a true benefit to servicemembers. Neither entity can be justified today as absolutely necessary for the well-being of the force, as both exchanges and commissaries grew up to serve a force that was scattered around the country in areas where there were limited shopping opportunities for either groceries or hard goods. Such is clearly not the situation today. Exchanges operate largely on non-appropriated funds, while commissaries receive a DoD subsidy and levy a 5% surcharge on grocery items that are sold at cost. Surveys have shown that SMs and their families regard both exchanges and commissaries as benefits of service, but that commissaries are seen as being much more valuable than exchanges.

We believe that merging the exchanges and commissaries would inevitably result in higher prices at commissaries, to the detriment of this benefit. We also do not believe that either the Commission or anyone else can determine with any degree of accuracy the savings that might accrue from a merging of the back-of-store operations of the exchanges and commissaries, as estimates of such savings cited by the Commission (Pp. 146-47) range from $151 million to $664 million per year. The magnitude of difference in such estimates makes us believe that they are no more than guesses. We would leave the present system of exchanges and commissaries as they are today.

Recommendation #10: Improve Access to Childcare on Military Installations

We largely support the Commission's recommendations, adding the comment that there is a dearth of childcare slots throughout the uniformed services community, and that we welcome any changes that would increase their number.

Recommendation #11: Safeguard Education Benefits for Servicemembers and Their Dependents

We believe that the education benefit in the Post-9/11 GI Bill is a significant tool for recruitment and retention and should be retained as is. We therefore oppose several of the Commission's recommendations on education benefits.

We strongly disagree, for example, with the Commission's recommendation (p. 171) that, "Congress should approve a Sense of the Congress resolution affirming that DoD and the Military Services may approve or deny requests to transfer Post-9/11 GI Bill benefits in such a way that encourages retention of individuals in the Military Services, and recommending that they be more selective in granting transferability of Post-9/11 GI Bill benefits." We believe this is one of the most bone-headed recommendations in the entire report. If the Commission is attempting to hurt recruitment and retention, this is a wonderful way to do so. Encouraging DoD and the Services to deny GI Bill transferability is precisely the wrong message to send to the field. This is an earned benefit, and though the authority to deny transferability is included in present law, we are unaware of any instances where such authority has actually been exercised.

The Commission also recommends that dependents who have received transferred GI Bill benefits not receive the Basic Allowance for Housing that is currently provided them. The Commission's justification for this proposal (Pp. 167-68) is based on assumptions that conflate the cost of attending college with what is paid to the SM dependent. Today's BAH currently supplements the $19,198 maximum the GI Bill pays for tuition and fees and actually allows someone to attend college in a fully-funded manner. It seems to us that the Commission does not recognize the potent tool that the Post 9/11 GI Bill offers for both recruitment and retention, and its proposals to diminish or undermine it are simply out of touch with reality.

Recommendation #12: Better Prepare Servicemembers for Transition to Civilian Life

We support this proposal.

Recommendation #13: Provide Food Assistance to Servicemembers as Necessary

We support this proposal.

Recommendation #14: Expand Space-A Travel Benefits

We support this recommendation.

Recommendation #15: Measure how Challenges of Military Life Affect Dependent Schoolchildren

We support this recommendation with the suggestion that the survey include not just the dependents of active duty SMs, but also the dependents of members of the Public Health Service, NOAA, the National Guard and the federal Reserve components. It is conceivable that dependents in all of these categories might be affected by their parent's service, but we will not know for sure until the data are gathered.

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